



## **The Central Valley Fund, L.P.**

### **Fund Offering**

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General Partner: **Gael Partners, LLC**  
Size: **\$30 million**  
Strategy: **Mezzanine**  
Geography: **Great Central Valley region of California**  
Industry: **Various**

### **Overview**

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Gael Partners, LLC (the “General Partner” or “Gael”) is seeking to raise \$30 million in capital commitments for The Central Valley Fund, L.P. (the “Fund”), which is being formed to make mezzanine and related equity investments in small and lower mid-market companies located primarily in the Great Central Valley (“Central Valley”) region of California. The Fund will focus mainly on high cash-flow generating companies with enterprise values ranging from \$10 million to \$75 million that have reached their senior secured debt limit and are in need of subordinated capital to sustain or expand their business. Targeted industry groups will be those with lower vulnerability to business cycles, higher cash flows and historically higher returns on capital, including the consumer products, business services, financial services, light industrial products and value-added distribution sectors. The General Partner will target returns of 15% to 25%, net of management fees.

The General Partner is currently in the process of registering the Fund as a small business investment company (“SBIC”) with the United States Small Business Administration (“SBA”). As an SBIC, the General Partner will seek leverage of up to two times its capital commitments in the form of SBA debentures (“SBA Leverage”), thereby having up to \$90 million in capital available for investments.

The General Partner will make mezzanine and equity investments in small- and middle-market companies located primarily within the Central Valley region of California, including the cities of Sacramento, Fresno, Bakersfield, Stockton and Modesto. Investments will be made in connection with growth strategies, levered and management buyouts, acquisitions, recapitalizations or other similar situations. The Fund will invest in companies based in the Central Valley region of California; the Fund may also invest in other regions within California, including the Los Angeles, San Diego and San Francisco Bay areas. The Fund will not make any investments in non-U.S. opportunities.

Gael was founded by Dan Jessee, José Blanco and Brad Triebsch (collectively, the “Principals”) in 2004. The Principals are supported by one special advisor, Bill Henderson, and are in the process of hiring two additional vice president-level commercial bankers and an analyst. The General Partner will be headquartered in Davis, California, with at least one satellite office in Fresno, California.

## **Key Features**

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- The General Partner is comprised of a balanced and experienced team, with over 30 years private equity experience.
- The Fund is the only regionally dedicated mezzanine provider in the Central Valley of California, which has a diverse industry and employment base.
- The General Partner has established an impressive group of contacts and relationships for sourcing new mezzanine investments.
- The majority of the Principals' mezzanine debt investment experience is concentrated within Mr. Jessee.

## **Recommendation**

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An investment in the Fund meets the prudent person standard as set forth in the California Public Employees' Retirement law.

**BIOGRAPHIES OF PRINCIPALS**

**Dan Jessee (51)** co-founded Gael in 2004. Mr. Jessee currently serves as principal of Stonehenge Financial Holdings ("Stonehenge"), a company he co-founded in 1999. As a senior partner of Stonehenge, Mr. Jessee oversees Stonehenge Opportunity Fund ("SOF"), a \$125 million leveraged buyout fund focused on the Midwest region, and Mezzanine Opportunity Fund ("MOF"), a \$200 million mezzanine fund. Although Mr. Jessee will not officially step down from his duties at Stonehenge until June 2005, he has significantly reduced his responsibilities at Stonehenge and expects to spend at least 50% of his business time on the Fund and the General Partner from January 2005 onward. Prior to joining Stonehenge, Mr. Jessee served as Vice Chairman of Banc One Capital Holdings Corporation ("BOHC") from 1992 to 1999, where, among other duties, he oversaw the management and investment of the bank's private equity and mezzanine funds under Banc One Capital Partners. Prior to his tenure at BOHC, Mr. Jessee held various investment banking positions at Meuse, Rinker, Chapman, Endres & Brooks, Rotan Mosle, Inc. and E.F. Hutton. Mr. Jessee received an M.B.A. in accounting from the University of Chicago, an M.B.A. in health care administration from the City University of New York and a B.A. from Tulane University.

**José Blanco (48)** co-founded Gael in 2004. Prior to forming Gael, Mr. Blanco was the CFO and a Executive Vice President for Team America, a human resources outsourcing company. He was also the Executive Vice President and Chief Financial Officer for Mucho.com. Prior to these companies, he was an assistant professor at St. Mary's College of California. He has also served as a Regional Vice President and Chief Investment Officer at American International Group ("AIG"), where he was responsible for making direct investments in the company's portfolio assets in Europe. Mr. Blanco received a PhD in economics from Utah State University, an M.S. in economics from the University of Utah, an M.B.A. in finance from the Claremont Graduate University and a B.A. from Saint Michael's College.

**Brad Triebsch (40)** co-founded Gael in 2004. Prior to forming Gael, Mr. Triebsch was a Senior Vice President at Westhoff, Cone & Holmstedt, an investment banking firm, Vice President of SportsTrac Systems, a medical device company, Vice President at Mucho.com, an Internet start-up and founder and President of ConVault Mid-Atlantic, an environmental manufacturing company. Mr. Triebsch has also served as an aide to the Democratic House Whip Tony Coelho in the U.S. Congress. Mr. Triebsch attended the University of San Francisco School of Law and received a B.A. from Saint Mary's College of California.

**Evaluation of the Investment Proposal****Investment Merits:**

1. **The General Partner is comprised of a balanced and experienced team of individuals who possess an attractive combination of investments management and operating management experience.** In total, the Principals have over 30 years of private equity experience, predominantly in mezzanine investing. In addition, they also have nearly 20 years of operating experience gained in either corporate management or management consulting roles. As a result of their operating experience, the Principals can bring management depth to small and medium-sized private companies, which oftentimes lack the sophistication of larger companies, focusing on growth opportunities and operating improvements at the portfolio companies.
2. **As the only regionally dedicated mezzanine provider, the Fund is well positioned to capitalize on the Central Valley of California, which presents a business environment with a growing number of smaller middle market mezzanine debt transaction opportunities.** The General Partner believes there is no other mezzanine fund targeting this market and that the Fund has a first mover advantage. California's Central Valley is a large and complex region undergoing tremendous growth and change. Covering almost 30% of California's landmass, stretching 450 miles from Shasta to Kern, the 18 county area is home to nearly 5.8 million people, or approximately 17% of the state's population. Between 1980 and 2000, U.S. population grew 22% while the population in California grew 47%. During this same time period, the population in the Central Valley grew 85%.
3. **The General Partner has established an impressive group of contacts and relationships for sourcing new mezzanine investment opportunities.** The General Partner will derive its deal flow from a number of different sources including: community banks; the General Partners' Business Advisory Committee; professionals such as attorneys, accountants and consultants; investment advisors; and other private equity firms offering co-investment opportunities. While the General Partner believes it will achieve proprietary deal flow using all of these resources, it feels it has unique sourcing capability because of its relationships with the community banks, its Business Advisory Committee and its advisory arrangement with Bill Henderson former Executive Vice President of Wells Fargo Bank responsible for corporate banking in the Central Valley. The second unique deal sourcing capability managed by the General Partner is its Business Advisory Committee. The committee is comprised of talented individuals who are well connected in the Central Valley. The General Partner estimates that approximately 20% of the Fund's deal flow will be sourced through this group. A third part of the General Partner's deal sourcing strategy is its advisory relationship with Bill Henderson. Mr. Henderson is a 30 year commercial banker veteran who ran the Central Valley corporate banking business for Wells Fargo Bank.

**Focus Areas:**

1. Concentration of Mezzanine Experience with Mr. Jessee
2. Team Cohesion
3. Relationships with Central Valley regional banks
4. SBIC Structure

**RECOMMENDATION**

Based on the information set forth in this report, Hamilton Lane, taking into consideration the circumstances currently prevailing in the market, the size of the CalPERS pension fund, account diversification, liquidity needs and investment strategy of CalPERS (as communicated orally or in writing to Hamilton Lane), hereby opines that CalPERS investment in the fund meets the prudent person standard as set forth in the California Public Employees' Retirement Law.

This prudent person opinion is neither a recommendation to make or reject this investment nor is it a representation regarding whether the investment complies with all of CalPERS' policies or procedures.

**DUE DILIGENCE CHECKLIST**

In examining The Central Valley Fund, Hamilton Lane work to date has included the following:

- a) Spoke with Principals and conducted interviews regarding the proposed strategy.
- b) Reviewed Private Placement Memorandum, Limited Partnership Agreement and other materials furnished by Central Valley.
- c) Performed conflict of interest checks.
- d) Reviewed the investment concept, including entry and exit strategies and terms including fees, principal participation and structure.
- e) Reviewed proposed investment opportunity against CalPERS' policy for investment consideration.
- f) Conducted a news search for articles covering or featuring the General Partner or its Principals.
- g) Conducted reference checks on Principals.
- h) Confirmed fund size relative the investment strategy.
- i) Requested and reviewed written and oral responses to a set of questions tailored to this opportunity. The questionnaire, dated September 3, 2004, contained 26 questions plus requests for additional data and information.
- j) Conducted a preliminary meeting at Hamilton Lane and site visit via a video conference with the general partner.
- k) Confirmed General Partner and its affiliated entities have no past, current, pending or threatened litigation (including, but not limited to, any SEC or other regulatory investigations, actions or consent decrees) that would negatively impact the Fund. However, Mr. José Blanco is currently under investigation by the Internal Revenue Service ("IRS") regarding his tenure as the Chief Financial Officer of Team America. Hamilton Lane has reviewed affidavits provided to the IRS by Mr. Blanco and five additional Team America senior executives, which contained exculpatory evidence as well as discussed the matter with his legal counsel.
- l) Performed other work as deemed appropriate.

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